

TOWN OF NORTH MIAMI
Ottawa County, Oklahoma
Independent Auditor's Report and
Financial Statements
For the Year Ended June 30, 2014

TOWN OF NORTH MIAMI

Ottawa County, Oklahoma

June 30, 2014

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TOWN OF NORTH MIAMI

Ottawa County, Oklahoma
June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Trustees
Town of North Miami, Oklahoma
North Miami, Ottawa County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Town of North Miami, Oklahoma* as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the *Town's* basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Town of North Miami, Oklahoma*, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of *Town of North Miami, Oklahoma's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering *Town of North Miami, Oklahoma's* internal control over financial reporting and compliance.

Stotts, Archambo, Mueggenborg & Barclay, PC

Stotts, Archambo, Mueggenborg & Barclay, PC

Certified Public Accountants

Bartlesville, Oklahoma

December 2, 2014

TOWN OF NORTH MIAMI

Statement of Net Position

June 30, 2014

	<u>Primary</u> <u>Governmental</u> <u>Activities</u>	<u>Government</u> <u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 79,773	11,769	91,542
Certificate of deposit	30,000	-	30,000
Accounts receivable - customers	-	11,824	11,824
Receivable from other governments	7,816	-	7,816
OMAG escrow fund	-	9,752	9,752
Prepaid expense	1,373	846	2,219
Restricted assets:			
Cash	-	10,466	10,466
Certificate of deposit	-	15,989	15,989
Total current assets	<u>118,962</u>	<u>60,646</u>	<u>179,608</u>
Non-current assets:			
Restricted assets			
OMAG interest fund	-	67	67
OMAG RSR & loss funds	-	2,324	2,324
Capital assets			
Nondepreciable	1	-	1
Depreciable, net of depreciation	243,513	96,678	340,191
Total non-current assets	<u>243,514</u>	<u>99,069</u>	<u>342,583</u>
Total assets	<u>362,476</u>	<u>159,715</u>	<u>522,191</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	2,188	6,731	8,919
Salaries payable	-	512	512
Accrued interest	-	533	533
Utility deposits	-	13,575	13,575
Current portion of note payable	-	6,957	6,957
Total current liabilities	<u>2,188</u>	<u>28,308</u>	<u>30,496</u>
Noncurrent liabilities:			
Note payable	-	98,890	98,890
Total liabilities	<u>2,188</u>	<u>127,198</u>	<u>129,386</u>
<u>NET POSITION</u>			
Net investment in capital assets	243,514	(9,169)	234,345
Restricted for:			
Statutory requirements	-	13,207	13,207
External contracts	-	15,639	15,639
Unrestricted	<u>116,774</u>	<u>12,840</u>	<u>129,614</u>
Total net position	<u>\$ 360,288</u>	<u>32,517</u>	<u>392,805</u>

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI
Statement of Activities
For the Fiscal Year ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services and Fines	Capital Grants	Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental activities:						
General government	\$ 41,565	-	-	(41,565)	-	(41,565)
Public Safety	50,189	21,994	-	(28,195)	-	(28,195)
Streets	29,785	-	-	(29,785)	-	(29,785)
Total governmental activities	121,539	21,994	-	(99,545)	-	(99,545)
Business-type activities:						
Water utilities	150,193	124,890		-	(25,303)	(25,303)
Total primary government	\$ 271,732	146,884		(99,545)	(25,303)	(124,848)
General Revenues:						
Taxes:						
Franchise taxes				13,234	-	13,234
Sales taxes				34,958	-	34,958
Other public service taxes				5,919	-	5,919
Unrestricted investment earnings				168	127	295
Miscellaneous				4,787	2,412	7,199
Transfers				(11,629)	11,629	-
				47,437	14,168	61,605
Change in net position				(52,109)	(11,135)	(63,243)
Net position - beginning of year				412,397	43,652	456,049
Net position - end of year				\$ 360,288	32,517	392,805

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Fiscal Year ended June 30, 2014

Net change in fund balances - total governmental funds \$ (17,256)

Amounts reported for governmental activities in the Statement of
Activities are different because:

Governmental funds report outlays for capital assets as expenditures
because such outlays use current financial resources. In contrast,
the Statement of Activities reports only a portion of the outlay as
expense. The outlay is allocated over the assets' estimated useful
lives as depreciation expense for the period. This is the amount that
depreciation in the current period exceeds the current capital outlays.

(34,853)

Change in net position of statement of activities

\$ (52,109)

TOWN OF NORTH MIAMI
Balance Sheet - Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>EPA Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 13,439	66,334	79,773
Certificate of deposit	30,000	-	30,000
Receivable from other governments	7,816	-	7,816
Prepaid expense	<u>1,373</u>	<u>-</u>	<u>1,373</u>
Total assets	<u>\$ 52,628</u>	<u>66,334</u>	<u>118,962</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ <u>2,187</u>	<u>-</u>	<u>2,187</u>
Total liabilities	<u>2,187</u>	<u>-</u>	<u>2,187</u>
Fund balances:			
Assigned	-	66,334	66,334
Unassigned	<u>50,441</u>	<u>-</u>	<u>50,441</u>
Total fund balances	<u>50,441</u>	<u>66,334</u>	<u>116,775</u>
Total liabilities and fund balances	<u>\$ 52,628</u>	<u>66,334</u>	<u>118,962</u>

Total fund balance, governmental funds \$ 116,775

Amounts reported for government activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$34,852. 243,514

Net Position of governmental activities \$ 360,288

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

For the Fiscal Year ended June 30, 2014

	General Fund	EPA Fund	Total Governmental Funds
REVENUES:			
Sales tax	\$ 34,958	-	34,958
Franchise fees	13,234	-	13,234
Alcohol and cigarette tax	2,241	-	2,241
Gasoline tax	3,678	-	3,678
Fines and fees	21,994	-	21,994
Interest	96	72	168
Miscellaneous	4,787	-	4,787
Total revenues	<u>80,988</u>	<u>72</u>	<u>81,060</u>
EXPENDITURES:			
Maintenance and operations	39,073	945	40,018
Personal services	45,692	-	45,692
Insurance	977	-	977
Total expenditures	<u>85,742</u>	<u>945</u>	<u>86,687</u>
Excess (deficiency) of revenues over expenditures	(4,754)	(873)	(5,627)
OTHER FINANCING SOURCES (USES):			
Transfers in	10,000	-	10,000
Transfers out	(11,629)	(10,000)	(21,629)
Total other financing sources (uses)	<u>(1,629)</u>	<u>(10,000)</u>	<u>(11,629)</u>
Net change in fund balance	(6,383)	(10,873)	(17,256)
Fund balances, beginning of year	<u>56,824</u>	<u>77,207</u>	<u>134,031</u>
Fund balances, end of year	<u>\$ 50,441</u>	<u>66,334</u>	<u>116,775</u>

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI
Statement of Net Position - Proprietary Fund
June 30, 2014

<u>ASSETS</u>	Public Works Authority Proprietary Fund
Current assets:	
Cash	\$ 11,769
Accounts receivable - customers	11,824
OMAG escrow fund	9,752
Prepaid expense	846
Current restricted assets:	
Cash	10,466
Certificate of deposit	15,989
Total current assets	<u>60,646</u>
Noncurrent assets:	
OMAG interest fund	67
OMAG RSR and loss funds	2,324
Capital assets net of accumulated depreciation	96,678
Total noncurrent assets	<u>99,069</u>
Total assets	<u><u>\$ 159,715</u></u>
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable	\$ 6,731
Salaries payable	512
Accrued interest	533
Current portion long-term debt	6,957
Utility deposits	13,575
Total current liabilities	<u>28,308</u>
Noncurrent liabilities:	
Long-term debt, less current portion above	98,890
Total liabilities	<u>127,198</u>
<u>NET POSITION</u>	
Net investment in capital assets	(9,169)
Restricted for utility deposits	13,207
Restricted for debt service	13,248
Restricted for OMAG	2,391
Unrestricted	12,840
Total net position	<u>32,517</u>
Total liabilities and net position	<u><u>\$ 159,715</u></u>

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI
Statement of Revenues, Expenses and
Changes in Fund Net Position - Proprietary Fund
For the Fiscal Year ended June 30, 2014

OPERATING REVENUE:

Water and sewer revenue	\$ 100,229
Trash revenue	20,632
Water assessment and taps	4,029
Total operating revenue	<u>124,890</u>

OPERATING EXPENSE:

Maintenance and operations:	
Water and sewer	80,532
General	12,017
Trash	19,757
Depreciation	9,247
Other expense	748
Total maintenance and operations	<u>122,301</u>

Personal services:

Water	3,916
General	14,635
Total personal services	<u>18,551</u>

Total operating expense	<u>140,852</u>
Operating income (loss)	<u>(15,962)</u>

NON-OPERATING REVENUES (EXPENSES):

Miscellaneous income	2,612
Miscellaneous expense	(200)
Insurance expense	(2,157)
Interest earned	127
Interest expense	(7,184)
Total non-operating revenues (expenses)	<u>(6,802)</u>

Income (loss) before other financing sources (uses)	<u>(22,764)</u>
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Other Financing Sources (Uses)

Transfers - in	11,629
Total other financing sources (uses)	<u>11,629</u>

Change in net position	(11,135)
Net position, beginning of year	<u>43,652</u>
Net position, end of year	<u><u>\$ 32,517</u></u>

TOWN OF NORTH MIAMI
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year ended June 30, 2014

Cash Flows from Operating Activities:

Receipts from customers	\$ 123,169
Payments to suppliers and employees	(130,911)
Net cash used by operating activities	<u>(7,742)</u>

Cash Flows from Noncapital Financing Activities:

Other income	2,612
Miscellaneous expense	(200)
Insurance expense	(2,157)
Interfund transfers in	11,629
Net cash provided by noncapital financing activities	<u>11,884</u>

Cash Flows from Capital and Related Financing Activities:

Principal paid on capital debt	(6,063)
Interest paid on capital debt	(7,184)
Net cash used by capital and related financing activities	<u>(13,247)</u>

Cash Flows from Investing Activities:

Sale of OMAG reserves	293
Interest and dividends	127
Sale of investments	9,769
Net cash provided by investing activities	<u>10,189</u>

Net increase in cash and cash equivalents	1,084
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Cash and cash equivalents, beginning of year	<u>21,151</u>
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Cash and cash equivalents, end of year	<u><u>\$ 22,235</u></u>
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Reconciliation to Statement of Net Position

Restricted cash and cash equivalents	\$ 10,466
Unrestricted cash and cash equivalents	<u>11,769</u>
Total cash and cash equivalents	<u><u>\$ 22,235</u></u>

See accompanying notes to the financial statements.

TOWN OF NORTH MIAMI
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year ended June 30, 2014
(continued)

Reconcilaition of operating loss to net cash used by operating activities:	
Operating loss	\$ (15,962)
Adjustment to reconcile operating income to net cash used by operating activities:	
Depreciation expense	9,247
Change in assets and liabilities:	
(Increase) decrease receivables, net	(1,721)
Increase (decrease) accounts payables	(883)
Increase (decrease) salaries payable	512
Increase (decrease) utility deposit	<u>1,065</u>
Net cash used by operating activities	\$ <u><u>(7,742)</u></u>

See accompanying notes to the financial statements .

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

In evaluating how to define *the Town*, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits *the Town* and/or its citizens, or whether the activity is conducted within the geographic boundaries of *the Town* and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion and exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The *Town of North Miami* and component units consist of all fund accounts of the oversight unit, the *Town of North Miami*, referred to as "*the Town*" and the North Miami Public Works Authority, referred to as "*the Authority*".

The *Authority* was created June 10, 1986, for the primary purpose of supplying water to the residents and businesses of North Miami.

Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

Required Reconciliation

Because different measurement focuses and bases of accounting are used, reconciliation between fund financial statements and government-wide financial statements is required.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Position and the Statement of Activities both governmental and business-type activities are presented using the economic resources measurement focus as defined in item b. below.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and Generally Accepted Governmental Accounting Principles promulgated by the Governmental Accounting Standards Board (GASB). In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Measurement Focus (continued)

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available to spend financial resources during a given period. These funds use fund balance as their measure of available to spend financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Basis of Accounting (continued)

All proprietary funds and trust funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

D. Fund Accounting

The *Town* uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain town functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into two categories: governmental and proprietary. Each category, in turn, is divided into separate "fund types".

Governmental Funds - The General Fund includes activity for the Street & Alley Fund and accounts for receipts and expenditures for activities that are not otherwise accounted for in the EPA Special Revenue Fund. The EPA Special Revenue Fund accounts for the receipt of EPA Superfund revenues designated for expenditures relating to the repairs of damaged *Town* roads.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

D. Fund Accounting (continued)

Proprietary Fund - *North Miami Public Works Authority* accounts for the receipts and expenditures of the utility services.

E. Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. All current year infrastructure additions have been recorded at actual cost. The *Town* is not required to account for infrastructure assets acquired prior to July 1, 2003. Governmental fund infrastructure assets have not been recorded for the period prior to July 1, 2003.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	15-50 years
Other Improvements	5-100 years
Machinery and Equipment	10-40 years
Office Machinery and Equipment	2-15 years
Vehicles	5-15 years
Infrastructure	25-50 years

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

E. Fixed Assets (continued)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

F. Assets, Liabilities and Net Position

Cash and Investments - For the purposes of these financial statements, “cash and cash equivalents” includes all demands and savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less. Investments consist of certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

The *Town* Treasurer has the responsibility for daily cash management activities and determines the amount of funds to be invested and length of time. The Board of Trustees, by investment resolution, grants final approval for investment of all *Town* funds. Additional cash and investment disclosures are presented in Note 2.

Inventories and Prepaids - The value of consumable inventories at June 30, 2014 is not material to the financial statements. Acquisitions are considered expenditures at the time of purchase and are not recorded as assets for financial statement purposes. Prepaids use the consumption method of reporting.

Receivables - In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales tax, alcoholic beverage tax, auto tax, and gasoline tax.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, and other similar intergovernmental revenues since they are both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the proprietary fund receivables.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position (continued)

Restricted Assets - Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to promissory note reserve accounts and utility meter deposits.

Compensated Absences - The *Town* is not able to reasonably estimate the accrual for compensated absences. Therefore, the balance has not been recorded.

Long-term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable.

The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted Net Position - consists of Net Position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position (continued)

Equity Classifications (continued)

Government-wide Statements (continued)

- c. Unrestricted Net Position - all other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

It is the *Town’s* policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is divided into five classifications based primarily on the extent to which the *Town* is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable – The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the *Town* to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legally enforceable means that the *Town* can be compelled by an external party – such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purposed specified by the legislation.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position (continued)

Equity Classifications (continued)

Fund Statements (continued)

Committed – the committed fund balance classification includes amounts that can be used only for specific purposes imposed by (ordinance or resolution of) Board of Trustees. Those committed amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Board of Trustees, separate from the authorization to raise the underlying revenue; therefore, compliance with those constraints are not considered to be legally enforceable. Committed fund balance also incorporates contract obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – amounts in the assigned fund balance classification are intended to be used by the *Town* for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Trustees or a *Town* official delegated that authority by the Charter, ordinance or resolution.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

F. Assets, Liabilities and Net Position (continued)

Equity Classifications (continued)

Fund Statements (continued)

Unassigned – unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. The *Town* applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within the unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

- G. Inter-fund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

- H. Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 1 - Summary of Significant Accounting Policies (continued)

- I. Stewardship, Compliance and Accountability - By its nature as a local government unit, the *Town* and its component units are subject to various federal, state, and local laws and contractual regulations.
- J. Deficit Fund Balances or Net Position - Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the *Town* (excluding public trusts). At June 30, 2014, the *Town* reported no individual fund deficits.
- K. Deferred Outflows of Resources - Deferred outflows are the consumption of net position by the *Town* that are applicable to a future reporting period. At June 30, 2014, the *Town* has no deferred outflows of resources.
- L. Deferred Inflows of Resources - Deferred inflows are the acquisition of net position by the *Town* that are applicable to a future reporting period. At June 30, 2014, the *Town* has no deferred inflows of resources.
- M. Income Taxes - As a public trust, the income of the *Public Works Authority*, which is derived from the exercise of any essential government function, is not subject to federal or state income taxes.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 2 - Cash and Investments

The *Town's* investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Cash and certificates of deposit held by the *Town* are fully covered.

Type	Credit Rating	Fair Value	Maturities in Years		
			On Demand	Less Than One	1-5
Demand deposits	N/A	\$ 102,008	102,008	-	-
Time deposits	N/A	45,989	-	45,989	-
Total		<u>\$ 147,997</u>	<u>102,008</u>	<u>45,989</u>	<u>-</u>
Reconciliation to Statement of Net Position:					
Cash and equivalents		\$ 91,542			
Investments		30,000			
Restricted cash and equivalents		10,466			
Restricted investments		<u>15,989</u>			
Total		<u>\$ 147,997</u>			

Custodial Credit Risk – All of the *Town's* deposits at financial institutions were covered by either FDIC insurance or collateralized.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the *Town's* investment policy limits the *Town's* investment portfolio to maturities of not more than two years.

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 3 - Accounts Receivable

Accounts receivable as of June 30, 2014 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>
	Balance as of 6/30/2014		Balance as of 6/30/2014
Sales Tax	\$ 6,455	Utilities	\$ 11,824
Franchise Tax	898		-
Auto tax	235		-
Miscellaneous	228		-
Total	<u>\$ 7,816</u>	Total	<u>\$ 11,824</u>

Note 4 - Property and Equipment

4. A Capital Asset Activity - Governmental

Capital asset activity for governmental activities for the year ended June 30, 2014 was as follows:

	<u>Governmental Activities</u>				
Class	Balance June 30, 2013	Additions	Deletions	Transfers	Balance June 30, 2014
Non-depreciable :					
Land	\$ 1	-	-	-	1
Total non-depreciable assets at historical cost	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Depreciable:					
Infrastructure	390,029	-	-	-	390,029
Buildings	147,389	-	-	-	147,389
Equipment and furniture	134,140	-	-	-	134,140
Total depreciable assets at historical cost	<u>671,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>671,558</u>
Less accumulated depreciation for:					
Infrastructure and improvements	258,085	26,002	-	-	284,087
Buildings	35,936	4,095	-	-	40,031
Equipment and furniture	99,172	4,755	-	-	103,927
Total accumulated depreciation	<u>393,193</u>	<u>34,852</u>	<u>-</u>	<u>-</u>	<u>428,045</u>
Net depreciable assets	<u>278,365</u>	<u>(34,852)</u>	<u>-</u>	<u>-</u>	<u>243,513</u>
Governmental activities capital assets, net	<u>\$ 278,366</u>	<u>(34,852)</u>	<u>-</u>	<u>-</u>	<u>243,514</u>

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 4 - Property and Equipment (continued)

4.B Capital Asset Activity – Business-type

Capital asset activity for business type activities for the fiscal year ended June 30, 2014 was as follows:

Business Type Activities					
Class	Ending Balance June 30, 2013	Additions	Deletions	Transfers	Ending Balance June 30, 2014
Depreciable					
Water System	\$ 290,159	-	-	-	290,159
Less accumulated depreciation for:					
Water System	184,234	9,248	-	-	193,481
Business-type capital assets, net	\$ 105,925	(9,248)	-	-	96,678

The *Authority's* fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life, which is; forty years for the water system, between seven and forty years for the lift station, and between five and seven years for office furniture and equipment. Expenditures for major renewals and betterments which extend the useful life of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

4.C Depreciation Charges

Depreciation expense by functional category for the governmental activities was as follows:

General Government	\$ 7,784
Public Safety	1,066
Streets	26,002
	<u>\$ 34,852</u>

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 5 - Restricted Assets

Debt Service

Under the terms of the Rural Development loan agreement (Note 6), the *Authority* was required to deposit \$105 each month to a restricted account until \$13,248 was reached. The *Authority* must maintain this balance until the loan is paid off or is reduced below this balance.

	<u>Amount Available</u>
<u>Debt Service Fund:</u>	
Cash	\$ 13,248
Loan resolution requirements	<u>13,248</u>
Funds over requirements	\$ <u><u>-</u></u>

Utility Deposits

The *Public Works Authority* is holding customers' meter deposits in the amount of \$13,575 and has assets reserved to refund these deposits, as required by statute.

<u>Utility Deposits:</u>	
Cash, reserved for Utility Deposits	\$ 10,466
Investments, reserved for Utility Deposits	<u>2,741</u>
Total available funds	13,207
Utility deposit liability	<u>13,575</u>
Deficit of funds under requirements	\$ <u><u>(368)</u></u>

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 5 - Restricted Assets (continued)

OMAG Funds

The Oklahoma Municipal Assurance Group (OMAG) provides workers' compensation coverage to the *Town* through participation with CompSource Oklahoma (formerly the State Insurance Fund). The *Town* has a right to the return of any funds set aside for claims which have not been paid out as benefits after three years. The *Town* has elected to invest these funds in an escrow account with OMAG, which is unrestricted. The Interest Fund holds the accumulation of the amount earned on the accounts with OMAG. This amount is credited against next year's premium.

OMAG Funds:

Interest Fund	\$ 67
RSR Fund	1,342
Loss Fund	<u>982</u>
Total restricted OMAG Funds	<u>2,391</u>
Cash, reserved for Utility Deposits	10,466
Investments, reserved for Utility Deposits	<u>2,741</u>
	<u>13,207</u>
Debt Service funds cash	<u>13,248</u>
Total restricted assets	\$ <u><u>28,846</u></u>

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 6 - Long-term Debt

The *Authority's* long-term debt at June 30, 2014 consists of the following:

Rural Development note with an interest rate of 6.125% per annum, monthly installments of \$1,104, including interest, secured by the water system, having a book value of \$105,847.

Principal outstanding at 6/30/14	\$	105,847
Less: current portion		(6,957)
Total non-current long-term debt	\$	<u><u>98,890</u></u>

The *Authority's* maturities of long-term debt are as follows:

Year Ended June 30	Principal Reductions	Interest	Debt Service Requirements
2015	6,957	6,291	13,248
2016	7,380	5,868	13,248
2017	7,861	5,387	13,248
2018	8,356	4,892	13,248
2019	8,882	4,366	13,248
Thereafter	<u>66,411</u>	<u>13,146</u>	<u>79,557</u>
Total	\$ <u><u>105,847</u></u>	<u><u>39,950</u></u>	<u><u>145,797</u></u>

Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
\$ 112,392	-	(6,545)	105,847

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 7 - Loan Covenant

The loan covenant with Rural Development requires the *Authority* to impose and collect such rates and charges that will provide an amount sufficient for the payment of the operation and maintenance of the system, the annual installment payments on the note, and maintenance of the various components. In addition, the *Town* is required to transfer one-third of its annual sales tax collections to the *Authority*. Computation of compliance with this covenant is as follows:

Net loss from operations	\$ (22,764)
Debt service requirement	<u>(13,248)</u>
Net loss below loan covenant requirements	(36,012)
Sales tax transfer	<u>11,629</u>
Total loss below loan covenant requirements	<u>\$ (24,383)</u>

Note 8 - Economic Dependence

The *Authority* is dependent upon the City of Miami, Oklahoma, for the *Authority*'s water supply. If the *Authority* could not purchase its water, the *Authority*'s alternative would be to build its own plant at substantial costs, or find an alternative supply.

Note 9 - Risk Management

The *Town* is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees and natural disasters. The *Town* manages these various risks of loss as follows:

<u>Carrier/Agent</u>	<u>Coverage</u>	<u>Risk of Loss Retained</u>
Oklahoma Municipal Assurance Group	Comprehensive, General Liability, Auto	None
Oklahoma Municipal Assurance Group	Property Insurance	None
Oklahoma Municipal Assurance Group	Workers Compensation	None

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 10 - Interfund Transfers

Transfer to	Transfer from	Amount	Nature of Interfund Balance
General Fund	EPA	\$ 10,000.00	To subsidize operations of the general fund
Public Works Authority	General Fund	11,629.00	To transfer sales tax revenue
		<u>\$ 21,629.00</u>	

Note 11 - Fund Balances and Net Position

Fund balance is classified as non-spendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the *Town* is bound to observe constraints imposed upon the use of resources in the government funds. The constraints place on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	<u>General Fund</u>	<u>EPA Fund</u>
Fund balances:		
Restricted for:		
EPA	\$ -	66,334
Unassigned:	<u>50,441</u>	<u>-</u>
Total fund balances	<u>\$ 50,441</u>	<u>66,334</u>

TOWN OF NORTH MIAMI
Notes to the Basic Financial Statements
June 30, 2014
(continued)

Note 11 - Fund Balances and Net Position (continued)

Restricted net position as reported in the Statement of Net Position is comprised of the following:

	<u>Enabling Legislation</u>	<u>Statutory Requirement</u>	<u>External Contracts</u>
Public Works Authority	\$ -	13,207	15,639
Total restricted net position	<u>\$ -</u>	<u>13,207</u>	<u>15,639</u>

Note 12 - Subsequent event

Management has evaluated and disclosed subsequent events up to and including December 2, 2014 which is the date the financial statements were available for issuance. There were no material subsequent events that required recognition or additional disclosures in these financial statements.

TOWN OF NORTH MIAMI
Required Supplementary Information
June 30, 2014

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedules – General Fund and EPA Fund

TOWN OF NORTH MIAMI
 Budget (Non-GAAP Basis) and Actual (with Variances)
 General Fund
 June 30, 2014

<u>GENERAL FUND</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Fund balance - beginning of year	\$ 25,825	25,825	56,824	(30,999)
REVENUES:				
Taxes	57,116	57,116	38,354	(18,762)
Fines and fees	6,631	6,631	35,228	28,597
Interest	239	239	96	(143)
Grants/donations	-	-	-	-
Miscellaneous	4,265	4,265	4,787	522
Total revenues	<u>68,251</u>	<u>68,251</u>	<u>78,465</u>	<u>10,214</u>
EXPENDITURES:				
General Fund Expenditures	88,764	88,764	84,273	4,491
Total expenditures	<u>88,764</u>	<u>88,764</u>	<u>84,273</u>	<u>4,491</u>
Revenues over expenditures and beginning fund balance before other financing sources	<u>5,312</u>	<u>5,312</u>	<u>51,016</u>	<u>45,704</u>
OTHER FINANCING SOURCE:				
Operating transfers (net)	\$ <u>7,485</u>	<u>7,485</u>	<u>(1,629)</u>	<u>9,114</u>
Excess of revenues and beginning fund balance over expenditures and other financing sources and uses (Non-GAAP budgetary basis)			<u>49,387</u>	
Adjustments to reconcile to generally accepted accounting principles (GAAP):				
Change in accounts payable			158	
Change in salaries payable			(1,627)	
Change in accrued revenue			<u>2,523</u>	
General fund balance end of year, GAAP			\$ <u><u>50,441</u></u>	

Unaudited – see independent auditor's report

TOWN OF NORTH MIAMI
 Budget (Non-GAAP Basis) and Actual (with Variances)
 EPA Fund
 June 30, 2014

<u>EPA STREET AND ALLEY FUND</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Fund balance - beginning of year	\$ <u>77,207</u>	<u>77,207</u>	<u>77,207</u>	<u>-</u>
REVENUES:				
Interest income	<u>41</u>	<u>41</u>	<u>72</u>	<u>31</u>
Total revenues	<u>41</u>	<u>41</u>	<u>72</u>	<u>31</u>
EXPENDITURES:				
Maintenance and operations	<u>70,000</u>	<u>70,000</u>	<u>945</u>	<u>69,055</u>
Total expenditures	<u>70,000</u>	<u>70,000</u>	<u>945</u>	<u>69,055</u>
Revenues over (under) expenditures and beginning fund balance	\$ <u>7,248</u>	<u>7,248</u>	<u>76,334</u>	<u>69,086</u>
OTHER FINANCING SOURCE (USES):				
Operating transfers (net)			<u>(10,000)</u>	
Excess of revenues and beginning fund balance over expenditures and other financing sources and uses (Non-GAAP budgetary basis)			<u>66,334</u>	
Adjustments to reconcile to generally accepted accounting principles (GAAP):			<u>-</u>	
EPA fund balance end of year, GAAP			\$ <u>66,334</u>	

TOWN OF NORTH MIAMI
Notes to Required Supplementary Information on
Budgetary Accounting and Control
June 30, 2014

BUDGETARY ACCOUNTING AND CONTROL

BUDGET LAW

The *Town* prepares its annual operating budget under the provision of the Oklahoma Municipal Budget Act of 1979 (the “Budget Act”). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the Town Treasurer submits to the Council a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing.
- b. Public hearings are conducted at regular Council meetings to obtain taxpayer comments. Public hearings are held no later than 15 days prior to the beginning of the budget year.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is legally enacted through the passage of a resolution of the City Council.
- d. Subsequent to City Council enactment, the adopted budget is filed with the office of the State Auditor and Inspector.

BUDGETARY ACCOUNTING

The Budget is prepared using the cash basis and budget laws of the State of Oklahoma. The financial statements are prepared using the modified accrual basis of accounting that complies with generally accepted accounting principles in the United States of America. There are timing differences related to encumbrances between the financial statements presentation and the budget that are reconciled on pages 34-35 of this report. The Board of Trustees can legally amend the Budget once it has been approved by filing a supplemental appropriation with the county excise board, state auditor and inspector and town clerk. Budget transfers between funds have to be approved by the Board of Trustees. There were no supplemental appropriations made during the fiscal year. All appropriations lapse at year-end. The level of control at which expenditures may not legally exceed appropriations is at the fund level for each legally adopted fiscal operating budget.



STOTTS • ARCHAMBO
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Independent Auditor's Report on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

The Honorable Board of Trustees
Town of North Miami, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Town of North Miami, Oklahoma*, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise *Town of North Miami, Oklahoma's* basic financial statements and have issued our report thereon dated December 2, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered *Town of North Miami, Oklahoma's* internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of *Town of North Miami, Oklahoma's* internal control. Accordingly, we do not express an opinion on the effectiveness of *Town of North Miami, Oklahoma's* internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial

statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies. 2014-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether *Town of North Miami, Oklahoma*'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-001.

Town of North Miami's Response to Findings

Town of North Miami, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. *Town of North Miami, Oklahoma*'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stotts, Archambo, Mueggensborg & Barclay, PC

Stotts, Archambo, Mueggensborg and Barclay, PC

Certified Public Accountants

Bartlesville, Oklahoma

December 2, 2014

TOWN OF NORTH MIAMI
Schedule of Findings and Responses
June 30, 2014

Internal Control Over Financial Reporting

2014-001

Criteria: The *Town of North Miami* does not have efficient separation of duties

Condition: During the auditors field work, it was noted that one person handles the opening of mail, receipt of cash, preparing deposits, and taking deposits to the bank.

Context: This process allows for one employee to control the receipt of funds through the entire process.

Effect: Cash could be misappropriated through a lack of segregation of duties.

Cause: The cause appears to be a lack of segregation of duties concerning the receipt of funds.

Recommendation : We recommend that the client separate the function of opening the mail, receipt of funds, preparing the bank deposits, and taking the deposit to the bank.

Views of responsible officials and planned corrective actions:

The Town Board of Trustees will take a more active roll in establishing efficient separation of duties.